

Press release

The Sustainability Code – 2018 annual review: lots to read and lots still to be done

Berlin, 20 December 2018 – The Sustainability Code is nearing the noteworthy milestone of now being used by 500 organisations. This year, the Code established itself as a reporting standard in particular for enterprises within the financial sector which are not oriented towards the capital market. Many Code users produced their first reports on sustainability issues in recent months, prompted by the so-called CSR reporting obligation. This highlights the process-oriented character of the Code, which lends itself well to assisting enterprises with the entire process of incorporating sustainability into their core business, right from the very beginning. The Code was revised this year in terms of both content and design in order to continue to serve the users as a pragmatic tool for all sorts of instances. The revisions include integration of the National Action Plan for Business and Human Rights, the new website, updated checklists and overhauled guidelines for first-time reporters, which will be available from January.

The Code in figures

To date (17 December 2018), 477 enterprises have used the Code to submit a total of 821 Code declarations. The volume of structured information about companies' sustainability achievements has therefore increased significantly. The majority of the declarations have been published in German (725), with global enterprises in particular additionally making an English version available online (96).

A great deal of the Code uptake in 2018 was triggered by the CSR Directive Implementation Act (CSR-RUG), with companies looking for pragmatic assistance with their reporting. Around 530 enterprises in Germany are directly affected by the reporting obligation. 149 companies prepared a Code declaration for the 2017 reporting year in accordance with CSR-RUG; of these, 134 were in the sector of "banks, insurance companies and financial service providers". With an increase of 230 users, there was year-on-year growth of 93%. This comprises organisations both with and without a reporting obligation.

Companies have a preference for the indicators of the Global Reporting Initiative (GRI). For the 2017 reporting year, 84% of companies reported their performance indicators in accordance with the GRI

standard, with the remaining 16% using the KPIs for ESG as laid out by the European Federation of Financial Analysts Societies (EFFAS), the majority of these being financial service providers.

Insights from 2018

The Sustainability Code Office assessed the quality of the Code declarations. 170 companies which had submitted a declaration for the 2017 reporting year by the cut-off date of 1 August 2018 were reviewed. The assessment showed that many enterprises were already pursuing a sustainability strategy or were in the process of developing one. There is a noticeable difference between companies in the financial sector and those in the other sectors: 9% of the companies in the financial sector have their own sustainability strategy compared with 69% in the other sectors. The alternative path – that of embedding the topic of sustainability in overall corporate strategy – is taken by 51% of financial service providers and 28% of all other companies. Among users lacking a strategic orientation, 40% of financial service providers (3% in other sectors) used the “explain” function to outline their reasons for this being the case.

Difficulties with legal terms

There is a degree of reticence among companies with a reporting obligation to use the term “policy” or to turn their internal structures, processes and measures into a systematic policy. In addition, quantitative goals regarding the five aspects are cited less often than qualitative ones. With regard to the aspect of human rights in particular, there are next to no concrete policies – the majority of companies (90%) reported here using the “explain” option. Slightly more than half of the companies outlined policies regarding employee and social aspects and regarding the combating of corruption and bribery. In the area of the environment, a slim majority made use of the “explain” option to explain their lack of policy, while stating that they intended to develop policies concerning environmental aspects soon.

There is room for improvement among companies with a reporting obligation regarding their risk reporting. The strict formulation of the Act transposing the EU Directive into German law (“likely to have significant negative impacts”) results in the reporters being more cautious in the way they phrase things here. Risks are predominantly reported on using the Code’s “explain” option (70–90% of users regarding environmental, employee and social aspects and also human rights); only with regard to the combating of corruption and bribery does a slim majority already have compliance management policies in place. In addition, risks are frequently mentioned which may affect the enterprises as a result of sustainability aspects, rather than the enterprises considering the negative impacts that they have on those very same aspects.

Integration of the National Action Plan for Business and Human Rights

The German federal government is seeking to establish the upholding of human rights in global supply and value chains with the [National Action Plan for Business and Human Rights \(NAP\)](#). Organisations are already able to report on how they handle human rights under Code criterion 17. This criterion has now been expanded to incorporate reporting elements appropriate to the NAP. The purpose of the Code as a reporting tool is to contribute to greater coherence across reporting systems and sustainability initiatives. Enterprises wishing to use the Code to outline their

commitment to protecting human rights all the way through to the value chain and explain the system or responsibility limitations can now select this in the database. They then see the Code's transparency requirements together with the NAP reporting elements.

Outlook for 2019

The Code Office will continue to standardise its critical review of the declarations prior to their publication based on the experience garnered in the first reporting year. This will also improve the comparability of the declarations. In view of the Paris Agreement and the resolutions adopted in Katowice, this also includes interest in information on existence of climate scenarios, the proportion of sustainable investments or the inclusion of ESG issues in investments for, for example, company pension schemes or, in the case of financial market players, their inclusion in the market players' own financial products.

In summer 2019 following the second reporting cycle since the entry into force of the CSR reporting obligation, the Sustainability Code Office will again review the Code declarations published to that point. The review is aimed at assessing what was reported on a voluntary basis. "In particular because of the leeway in how the law is interpreted, there is still a very wide array of different reporting practices," comments Yvonne Zwick, Deputy Secretary-General of the German Council for Sustainable Development and Head of the Sustainability Code Office. "However, organisations that use the Code clearly demonstrate that they take the topic of sustainability seriously. They are supporting informed debate regarding the degrees to which it is already possible to consider sustainability in a company's core business and also how to deal with goal conflicts and how to benefit from comparisons with the competition. We urgently need this competitive aspect in order to make crucial progress in the area of sustainable development – both within society and at the company level."

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The Sustainability Code promotes corporate and social responsibility. Using 20 criteria and supplementary performance indicators, it presents the sustainability performance of national and international organisations and companies regardless of their size and legal structure. Since the beginning of 2017 capital-market-oriented companies with more than 500 employees have been required to report on their sustainability activities. The European Commission and the German federal government have praised the Code as a suitable standard for fulfilling the reporting obligation. Its area of focus and uncomplicated handling also make the Code an ideal tool for small and medium-sized enterprises. Use of the Code and the Code database is free of charge. www.sustainabilitycode.org

The **German Council for Sustainable Development** (RNE) was first called into being by the German government in April 2001. The Council currently consists of 17 public figures. The Council's tasks include generating contributions to the German Sustainable Development Strategy, specifying concrete fields of activity and projects and also providing contributions that make sustainability a public issue of vital importance. In selecting the topics it deals with and the forms of action it employs, the Council operates independently. The results of its ongoing work include the Sustainability Code; recommendations regarding the German Sustainable Development Strategy, the global Sustainable Development Goals,

digitalisation and sustainability, climate policy, raw materials policy and organic farming; the Hub for Sustainable Finance and much more besides. **More at** www.sustainabilitycouncil.de

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